

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Saline, Michigan</u>	County Washtenaw
Audit Date June 30, 2005	Opinion Date August 31, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 1000 Oakbrook Drive, Suite 400	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Saline, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Saline, Michigan

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## Independent Auditor's Report

To the City Council  
City of Saline, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Saline's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Saline, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Saline's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005 on our consideration of the City of Saline's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

August 31, 2005

# City of Saline, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Saline's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Revenues from local property taxes increased for a second consecutive year. This was due to the combination of the continuing increase in taxable valuations combined with the City tax rates being increased.
- State-shared revenue, our second largest revenue source, was again reduced by the State of Michigan this fiscal year to about two-fifths below the long-term trend level. Due in part to a lasting trend of weakening in state-shared revenue plus some additional new costs, the City tax rates were adjusted to maintain a prudent fund balance projected over the next several years.
- Revenues from sales of industrial land were up again due to the location of a significant new manufacturing plant in Sauk Trail Business Park. Kunststoff-Technik Scherer & Trier USA has now spent about \$8.3 million on the first phase of a \$20 million four-phase project. Several other business sites vacated during the recent national economic slowdown have now been refilled and some other sites are expanding with new construction.
- Total unrestricted net assets related to the City's governmental activities increased by approximately \$340,000. Since the tax revenue stream is expected to now increase incrementally each year, and all major costs are now covered by suitable revenue sources, the unrestricted fund balances are expected to continue to grow.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can provide an approximate measure of the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current assets	\$ 6,419	\$ 7,191	\$ 3,901	\$ 3,442	\$ 10,320	\$ 10,633
Noncurrent assets	30,548	30,976	34,521	31,783	65,069	62,759
Total assets	36,967	38,167	38,422	35,225	75,389	73,392
<b>Liabilities</b>						
Current liabilities	2,325	2,332	1,159	2,925	3,484	5,257
Long-term liabilities	13,657	14,425	13,084	8,763	26,741	23,188
Total liabilities	15,982	16,757	14,243	11,688	30,225	28,445
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	15,485	15,453	19,595	21,238	35,080	36,691
Restricted	4,423	5,220	1,397	1,288	5,820	6,508
Unrestricted	1,077	737	3,187	1,011	4,264	1,748
Total net assets	<u>\$ 20,985</u>	<u>\$ 21,410</u>	<u>\$ 24,179</u>	<u>\$ 23,537</u>	<u>\$ 45,164</u>	<u>\$ 44,947</u>

As we look at the governmental activities separately from the business-type activities, we note that unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$340,000. The current level of unrestricted net assets for all of our governmental activities stands at approximately \$1,077,000, or about 9.6 percent of the total governmental expenditures for the primary governmental activities (not including the business-type activities or the component units). With the increased tax rate and expected annual increases in revenues, the unrestricted net assets are now projected to grow each year.



# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2005 as compared to the prior year (in thousands):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,484	\$ 2,558	\$ -	\$ -	\$ 2,484	\$ 2,558
Operating grants and contributions	583	553	-	645	583	1,198
Capital grants and contributions	779	805	692	901	1,471	1,706
General revenue:						
Property taxes	5,487	4,824	-	-	5,487	4,824
State-shared revenue	906	1,128	-	-	906	1,128
Unrestricted investment earnings	144	62	69	56	213	118
Proceeds from the sale of capital assets	49	121	-	-	49	121
Miscellaneous	321	48	-	-	321	48
Water and sewer	-	-	2,831	2,563	2,831	2,563
Total revenue	10,753	10,099	3,592	4,165	14,345	14,264
<b>Program Expenses</b>						
General government	2,531	2,367	-	-	2,531	2,367
Public safety	2,564	2,243	-	-	2,564	2,243
Public works	1,159	1,152	-	-	1,159	1,152
Cemetery	51	91	-	-	51	91
Recreation and culture	2,154	2,056	-	-	2,154	2,056
Legislative	66	56	-	-	66	56
Building department	226	251	-	-	226	251
Highways and streets	1,551	1,938	-	-	1,551	1,938
Other	72	85	-	-	72	85
Interest on long-term debt	662	711	-	-	662	711
Unallocated	142	142	-	-	142	142
Water and sewer	-	-	2,951	2,548	2,951	2,548
Total program expenses	11,178	11,092	2,951	2,548	14,129	13,640
<b>Change in Net Assets</b>	<b>\$ (425)</b>	<b>\$ (993)</b>	<b>\$ 641</b>	<b>\$ 1,617</b>	<b>\$ 216</b>	<b>\$ 624</b>

Two major sources that significantly increased revenues were a higher return on investments due to increasing interest rates and the significantly higher tax receipts from property taxes due to the new City tax rate which are more than enough to overcome the faster depreciation of taxable property and the other reductions due to Proposal A. Because tax settlements had absorbed some of the cash balance and the national recession had cut back the revenues from the sale of municipally owned industrial park land, in June 2004 the City Council had increased the City tax rate for the following fiscal year to 13.72 mills. In order to pay for the additional debt service from the construction of a new \$4.5 million Department of Public Works facility plus \$1.5 million of improvements to the Saline Recreation Complex, the City tax rate was again increased for the subsequent year to 15.53 mills. The financial planning projection at this constant tax rate (which still has 1.9567 mills or 15.44 percent of excess taxing capacity under the Headlee limitation) is that the undesignated fund balance in the General Fund will increase to over 20 percent of budgeted expenditures within the next three or four years.

# **City of Saline, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues increased by approximately \$654,000, from \$10,099,000 to \$10,753,000. This result was achieved despite continued shortages in state-shared revenues, modest land sales receipts, and moderate interest income. This was primarily due to the continuing increase in property taxes, which offset some of the negative factors.

The City's governmental expenses changed by about \$86,000, from \$11,092,000 to \$11,178,000. Although most programs had the expected incremental increases in costs, this was offset by a significant reduction in the cost of street projects in this fiscal year due to timing.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. We provide drinking water to City residents from our municipal water system from underground wells. We provide sewage treatment through a City-owned and -operated sewage treatment plant. In 2004-2005, the City's water and sewer revenues continued to steadily increase. This resulted in a net operating income for the fourth year in a row, which reversed operating losses in the two previous years.

The municipality has ensured adequate funding for its business-type water and sewer activities by increasing the utility rates to cover all projects, operations, and maintenance of the utility systems. In August 2003, after a water system revenue study, the City Council adopted new water rates through 2008 in order to ensure cash coverage ratios of 1.45 to 2.0 on the debt service. Construction of a new water treatment plant has improved the aesthetics of the drinking water since its completion in the spring of 2005.

### **The City's Funds**

Our analysis of the City's major funds begins with the governmental funds balance sheet, following the government-wide financial statements that immediately follow this discussion. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Municipal Streets Fund, and the Saline Recreation Complex Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government, public safety, and public works, which incurred expenses of approximately \$6,254,000 in 2005. These services are partially supported by a special refuse millage which is recorded in the General Fund (see Note 16).

# City of Saline, Michigan

## **Management's Discussion and Analysis (Continued)**

The remaining departments are funded by other various general revenue sources of the General Fund. Most of the expenses for governmental activities increased incrementally, led by large increases in health care costs and property insurance rates. But the street construction project timing caused the expenditures on streets to be somewhat less than the prior year, utilizing the construction funds remaining from the 2004 street bonds.

### **General Fund Budgetary Highlights**

The largest revenue side changes over the prior year were strongly increased tax revenues, a gradual reduction in permit fees as the municipality is built out, a federal grant for replacement of trees due to the emerald ash borer, significantly greater interest earnings as rates have increased, an increase in industrial land sales, net proceeds from the sale of streetlights to DTE Energy, and a slightly lower than expected prior end-of-year undesignated fund balance. The largest expenditure side changes over the prior year were the new MERS retiree health care trust allocation equivalent to almost one-half of a mill for postretirement cost, which will be reportable for the year ending June 2009, some retiree payouts in various departments, tree replacements partially with grant funds, and additional transfer to support the recreation complex operations.

Over the course of the year, the City amended the budget to take into account events during the year. The most significant revenue changes were a \$170,000 grant for Sauk Trail being delayed until the following fiscal year, an increase in revenues from fines, a reduction in budgeted industrial land sales receipts due to two projects not going forward, and about a \$140,000 sale of some streetlights to DTE Energy. The most significant expenditure changes were a retirement payout of about \$50,000 for the assessor's office and the police department, about \$20,000 of needed safety improvements to keep the service center in use until the new DPW facility is built, and an increase to cover the operations of the recreation complex.

City departments overall had total expenditures significantly below budget. The amended budget had anticipated a decrease by about one-fourth in the fund balance of the General Fund. The actual fund balance at June 30, 2005 turned out to be slightly above the expected range.

The municipality had been tightening budgets because tax revenue gains were being moderated by reductions in personal property tax valuation as well as by Proposal A, and there were new higher costs (the municipal building, recreation complex, and new debt). Since the recession continued to reduce the flow of revenues from the sale of municipal industrial land, the City increased its local tax rate to 15.53 mills for the next fiscal year, thereby projecting sufficient revenues for the General Fund. This tax rate is now projected to increase the undesignated fund balance in the General Fund to over 20 percent of budgeted expenditures within the next three to four years.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### Capital Asset and Debt Administration

At the end of the 2005 fiscal year, the City had about \$63 million invested in a broad range of capital assets, including land, buildings, streets, police and fire equipment, and water and sewer lines. In addition, the City was planning to budget approximately \$10 million in additional infrastructure improvements (the majority to come from new bonds plus remaining bond proceeds on hand) over the subsequent two years. Several of the most pressing infrastructure investments have been done over the past half dozen years. The street improvement projects are being continued at about \$2 million per year. The scope of the water system improvements during the past few years is a major factor in the continued improvement of the municipality's ISO insurance rating during the past few years, from a 6 to a 5, thereby lowering some insurance costs within the city limits.

A seven-year installment purchase agreement at 3.25 percent on November 2, 2004 financed the installation of the Dectron dehumidifier system for the pool area at the Recreation Complex. Subsequent to June 30, 2005, the City refunded the remaining 2000 Saline Building Authority Bonds for an estimated net savings of \$124,590. In addition, the City issued the new \$6 million multi-purpose (new Department of Public Works and Recreation Complex improvements) Limited Tax General Obligation Bonds. Standard & Poor's reaffirmed the rating of A+ for both of these bonds.

Below is a summary of various debt ratios and the legal debt margin, including the authorized financing in 2005 subsequent to the June 30, 2005 end of fiscal year. No additional borrowing is foreseen within the next year.

The City has debt equal to slightly over one-half of its debt limit. The City's tax base growth is changing to a larger proportion of residential, but a healthy 42.15 percent continues to be non-residential taxable valuation as of the April 2005 apportionment report by the Washtenaw County equalization department.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

<b>DEBT RATIOS (Net Direct and Indirect Debt including debt issued subsequent to year end net of subsequent payments made.)</b>	
<i>Per Capita (9,200 estimated current population based on 8,034 in 2000 Census)</i>	\$ 3,350
<i>Ratio to 2005 Taxable Value (\$454,075,115) Including full IFTs</i>	5.84%
<i>Ratio to 2005 State Equalized Valuation (\$523,919,000) Including full IFTs</i>	5.06%
<i>Ratio to 2005 Estimated True Cash Value (\$1,047,838,000) Including full IFTs</i>	2.53%

<b>LEGAL DEBT MARGIN (Including April 2004 Bonds, per Michigan P.A. 279 of 1909 as amended)</b>	
2005 State Equalized Valuation - Excluding IFT values	\$ 500,028,800
Plus 2005 Industrial Facilities Tax Act 198 abatements (counted at half)	20,484,895
Total 2005 valuation (with IFT-SEV at half)	520,513,695
<b>Debt Limit - 10 percent of total valuation</b>	52,051,370
Total debt outstanding	32,215,000
Less: Transportation Fund bonds	\$ (845,000)
Revenue bonds	(2,455,000) (3,300,000)
Total subject to debt limit	28,915,000
<b>Additional Debt Which Could Be Legally Incurred</b>	<b>\$ 23,136,370</b>

<b>DEBT HISTORY AND FUTURE FINANCING</b>
The City has no record of default. No additional debt is anticipated to be issued in the next year.

### Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A plus weak state government finances, the City needs to continue to monitor its budgets. The state-wide Tax Reform Act limits growth in taxable value on any individual property, and the State Tax Commission again established a 2.3 percent inflation rate for 2005 taxes (the 2005-2006 fiscal year). Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

The City's budget for the 2005-2006 fiscal year includes an increase in property tax rates to ensure maintaining more than 10 percent (and gradually returning to 20 percent) end-of-year fund balance in the General Fund each year. This can be accomplished partly due to the strong growth in our tax base.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (734) 429-4907, extension 209.

# City of Saline, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			
	Business-type			
	Activities			
	Governmental	(Water and		Component
	Activities	Sewer)	Total	Units
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 5,134,743	\$ 2,544,720	\$ 7,679,463	\$ 2,416,730
Receivables - Net (Note 4)	190,865	599,163	790,028	2,171
Due from other governmental units	435,210	-	435,210	135,000
Due from component units (Note 6)	658,008	741,817	1,399,825	-
Inventories	-	15,365	15,365	-
Restricted assets (Note 9)	19,365	1,397,041	1,416,406	-
Investment in joint venture - Saline Area Fire Department (Note 14)	548,359	-	548,359	-
Capital assets (Note 5):				
Nondepreciated	1,347,324	539,320	1,886,644	40,749
Depreciated (Net)	<u>28,633,454</u>	<u>32,584,256</u>	<u>61,217,710</u>	<u>-</u>
Total assets	36,967,328	38,421,682	75,389,010	2,594,650
<b>Liabilities</b>				
Accounts payable	378,656	455,241	833,897	12,957
Due to primary government (Note 6)	-	-	-	1,399,825
Due to other governmental units	-	-	-	507,840
Accrued and other liabilities	231,651	121,958	353,609	2,172
Noncurrent liabilities (Note 8):				
Due within one year	1,715,233	581,505	2,296,738	70,000
Due in more than one year	<u>13,657,059</u>	<u>13,084,081</u>	<u>26,741,140</u>	<u>225,000</u>
Total liabilities	<u>15,982,599</u>	<u>14,242,785</u>	<u>30,225,384</u>	<u>2,217,794</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	15,485,021	19,594,604	35,079,625	40,749
Restricted:				
Streets and highways	3,684,093	-	3,684,093	-
Solid waste and recycling	60,310	-	60,310	-
Debt service	19,365	258,000	277,365	-
Capital projects	3,786	1,139,041	1,142,827	-
Cemetery perpetual care	655,072	-	655,072	-
Economic Development Trust	-	-	-	28,209
Unrestricted (Note 17)	<u>1,077,082</u>	<u>3,187,252</u>	<u>4,264,334</u>	<u>307,898</u>
Total net assets	<u>\$ 20,984,729</u>	<u>\$ 24,178,897</u>	<u>\$ 45,163,626</u>	<u>\$ 376,856</u>

# City of Saline, Michigan

	Expenses	Program Revenues		
		Charges for	Operating	Capital Grants
		Services	Grants and	and
			Contributions	Contributions
<b>Functions/Programs - Primary government</b>				
Governmental activities:				
General government	\$ 2,604,281	\$ 941,829	\$ 24,705	\$ -
Public safety	2,564,099	210,162	-	-
Public works	1,158,526	-	-	-
Cemetery	50,571	58,351	-	-
Recreation and culture	2,154,057	1,088,380	53,402	50,000
Legislative	65,970	-	-	-
Building department	225,875	185,469	-	-
Highways and streets	1,551,434	-	504,617	-
Interest on long-term debt	661,842	-	-	728,870
Unallocated depreciation	141,721	-	-	-
Total governmental activities	11,178,376	2,484,191	582,724	778,870
Business-type activities - Water and Sewer	2,950,561	2,830,905	-	692,224
Total primary government	<u>\$ 14,128,937</u>	<u>\$ 5,315,096</u>	<u>\$ 582,724</u>	<u>\$ 1,471,094</u>
Component units:				
Economic Development Corporation	\$ 157,390	\$ 7,476	\$ 135,000	\$ -
Tax Increment Finance Authority	1,203,653	-	-	-
Local Development Finance Authorities	655,696	-	-	-
Economic Development Trust	22,151	5,145	-	-
Total component units	<u>\$ 2,038,890</u>	<u>\$ 12,621</u>	<u>\$ 135,000</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Proceeds from the sale of capital assets				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,637,747)	\$ -	\$ (1,637,747)	\$ -
(2,353,937)	-	(2,353,937)	-
(1,158,526)	-	(1,158,526)	-
7,780	-	7,780	-
(962,275)	-	(962,275)	-
(65,970)	-	(65,970)	-
(40,406)	-	(40,406)	-
(1,046,817)	-	(1,046,817)	-
67,028	-	67,028	-
(141,721)	-	(141,721)	-
(7,332,591)	-	(7,332,591)	-
-	572,568	572,568	-
(7,332,591)	572,568	(6,760,023)	-
-	-	-	(14,914)
-	-	-	(1,203,653)
-	-	-	(655,696)
-	-	-	(17,006)
-	-	-	(1,891,269)
5,487,425	-	5,487,425	1,821,701
906,440	-	906,440	-
143,978	69,204	213,182	55,684
48,652	-	48,652	-
320,914	-	320,914	-
6,907,409	69,204	6,976,613	1,877,385
(425,182)	641,772	216,590	(13,884)
21,409,911	23,537,125	44,947,036	390,740
<b>\$ 20,984,729</b>	<b>\$ 24,178,897</b>	<b>\$ 45,163,626</b>	<b>\$ 376,856</b>



# City of Saline, Michigan

	Major Funds				
	General Fund*	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 522,919	\$ 288,454	\$ 102,865	\$ 3,278,207	\$ 242,400
Receivables - Net (Note 4)	170,266	-	-	-	18,430
Due from other governmental units	177,637	85,441	20,836	-	-
Due from other funds (Note 6)	494,504	271,225	276,120	64,921	-
Due from component units (Note 6)	259,792	398,216	-	-	-
Restricted assets (Note 9)	-	-	-	-	19,365
Total assets	<b>\$ 1,625,118</b>	<b>\$ 1,043,336</b>	<b>\$ 399,821</b>	<b>\$ 3,343,128</b>	<b>\$ 280,195</b>
<b>Liabilities</b>					
Accounts payable	\$ 297,248	\$ 19,201	\$ 11,955	\$ -	\$ 50,252
Accrued and other liabilities	88,337	4,155	4,069	-	21,258
Due to other funds (Note 6)	749	66,426	189,650	806,736	-
Total liabilities	386,334	89,782	205,674	806,736	71,510
<b>Fund Balances</b>					
Reserved:					
Solid waste and recycling	60,310	-	-	-	-
Debt service	-	-	-	-	19,365
Capital projects	-	-	-	2,536,392	-
Cemetery perpetual care	-	-	-	-	-
Unreserved, reported in:					
General Fund:					
Designated (Note 13)	245,253	-	-	-	-
Undesignated	933,221	-	-	-	-
Special Revenue Funds	-	953,554	194,147	-	189,320
Total fund balances	<u>1,238,784</u>	<u>953,554</u>	<u>194,147</u>	<u>2,536,392</u>	<u>208,685</u>
Total liabilities and fund balances	<b>\$ 1,625,118</b>	<b>\$ 1,043,336</b>	<b>\$ 399,821</b>	<b>\$ 3,343,128</b>	<b>\$ 280,195</b>

\* See component information of the total General Fund (composed of City's General Fund, Fire Special Assessment Fund, and Solid Waste Fund) in the other supplemental information

**Governmental Funds  
Balance Sheet  
June 30, 2005**

<u>Nonmajor Funds</u>		
Capital Projects - Building Authority	Permanent Fund - Cemetery Perpetual Care	Total Governmental Funds
\$ 3,786	\$ 696,112	\$ 5,134,743
-	2,169	190,865
-	-	283,914
-	-	1,106,770
-	-	658,008
-	-	19,365
<u>\$ 3,786</u>	<u>\$ 698,281</u>	<u>\$ 7,393,665</u>
 \$ -	 \$ -	 \$ 378,656
-	-	117,819
-	43,209	1,106,770
-	43,209	1,603,245
-	-	60,310
-	-	19,365
3,786	-	2,540,178
-	655,072	655,072
-	-	245,253
-	-	933,221
-	-	1,337,021
<u>3,786</u>	<u>655,072</u>	<u>5,790,420</u>
 <u>\$ 3,786</u>	 <u>\$ 698,281</u>	 <u>\$ 7,393,665</u>

# City of Saline, Michigan

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## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2005

<b>Total Fund Balances of Governmental Funds</b>	\$ 5,790,420
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	29,980,778
Revenue-sharing due from the State not received within 60 days of year end is not available currently and is not recorded in the funds	151,296
Investment in joint venture is not a financial resource and is not reported in the funds	548,359
Long-term liabilities, including compensated absences, are not due and payable in the current period and are not reported in the funds	(15,372,292)
Interest amounts on long-term liabilities are not payable until due in the funds	<u>(113,832)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 20,984,729</u></b>

# City of Saline, Michigan

	Major Funds				
	General Fund*	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex
<b>Revenue</b>					
Property taxes	\$ 5,487,425	\$ -	\$ -	\$ -	\$ -
Licenses and permits	250,546	-	-	-	-
Federal sources	24,705	-	-	-	-
State sources	836,015	446,151	128,803	-	-
Charges for services	777,035	-	-	-	983,838
Fines and court costs	129,697	-	-	-	-
Interest earnings	88,729	-	6,442	40,613	710
Land sale collections	486,703	-	-	-	-
Other	603,616	-	-	-	111,031
<b>Total revenue</b>	<b>8,684,471</b>	<b>446,151</b>	<b>135,245</b>	<b>40,613</b>	<b>1,095,579</b>
<b>Expenditures</b>					
Current:					
General government	2,408,009	50,000	15,000	-	11,500
Public safety	2,478,264	-	-	-	-
Public works	1,094,800	-	-	-	-
Cemetery	45,853	-	-	-	-
Recreation and culture	518,374	-	-	-	1,099,537
Legislative	65,970	-	-	-	-
Building department	206,587	-	-	-	-
Engineering department	210,551	-	-	-	-
Highways and streets	-	691,441	158,042	577,484	-
Other	78,725	-	-	-	-
Capital outlay	264,528	-	-	-	495,454
Debt service	130,859	281,141	-	-	98,946
<b>Total expenditures</b>	<b>7,502,520</b>	<b>1,022,582</b>	<b>173,042</b>	<b>577,484</b>	<b>1,705,437</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>1,181,951</b>	<b>(576,431)</b>	<b>(37,797)</b>	<b>(536,871)</b>	<b>(609,858)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 6)	-	963,313	278,115	-	370,000
Transfers out (Note 6)	(972,748)	-	(189,650)	(778,115)	-
Proceeds from the issuance of debt	-	-	-	-	413,400
<b>Total other financing sources (uses)</b>	<b>(972,748)</b>	<b>963,313</b>	<b>88,465</b>	<b>(778,115)</b>	<b>783,400</b>
<b>Net Change in Fund Balances</b>	<b>209,203</b>	<b>386,882</b>	<b>50,668</b>	<b>(1,314,986)</b>	<b>173,542</b>
<b>Fund Balances - Beginning of year</b>	<b>1,029,581</b>	<b>566,672</b>	<b>143,479</b>	<b>3,851,378</b>	<b>35,143</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,238,784</b>	<b>\$ 953,554</b>	<b>\$ 194,147</b>	<b>\$ 2,536,392</b>	<b>\$ 208,685</b>

\* See component information of the total General Fund (composed of City's General Fund, Fire Special Assessment Fund, and Solid Waste Fund) in the other supplemental information

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2005**

Nonmajor Funds		
Capital Projects - Building Authority	Permanent Fund - Cemetery Perpetual Care	Total Governmental Funds
\$ -	\$ -	\$ 5,487,425
-	-	250,546
-	-	24,705
-	-	1,410,969
-	58,351	1,819,224
-	-	129,697
1,079	6,405	143,978
-	-	486,703
-	-	714,647
1,079	64,756	10,467,894
-	-	2,484,509
-	-	2,478,264
-	-	1,094,800
-	-	45,853
-	-	1,617,911
-	-	65,970
-	-	206,587
-	-	210,551
-	-	1,426,967
-	-	78,725
-	-	759,982
329,085	-	840,031
329,085	-	11,310,150
(328,006)	64,756	(842,256)
329,085	-	1,940,513
-	-	(1,940,513)
-	-	413,400
329,085	-	413,400
1,079	64,756	(428,856)
2,707	590,316	6,219,276
<u>\$ 3,786</u>	<u>\$ 655,072</u>	<u>\$ 5,790,420</u>

# City of Saline, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

**Net Change in Fund Balances - Total Governmental Funds** \$ (428,856)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 2,045,852	
Net book value of assets disposed	(438,051)	
Depreciation expense	<u>(2,064,969)</u>	(457,168)

Revenue-sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end 88

Accrued interest payable is recorded when due in governmental funds 4,666

Change in joint venture equity interest is not a financial resource and is not reported in the governmental funds 12,070

Bond proceeds are not reported as financing sources on the statement of activities (413,400)

Repayment of bond principal and other long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 902,393

Changes in compensated absences are recorded when earned in the statement of activities (44,975)

**Change in Net Assets of Governmental Activities** \$ (425,182)

# City of Saline, Michigan

## Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2005

### Current Assets

Cash and cash equivalents (Note 3)	\$ 2,544,720
Customer receivables (Note 4)	599,163
Due from component units (Note 6)	741,817
Inventories	<u>15,365</u>
Total current assets	3,901,065

### Noncurrent Assets

Restricted assets (Note 9)	1,397,041
Capital assets (Note 5):	
Nondepreciated	539,320
Depreciated - Net	<u>32,584,256</u>
Total noncurrent assets	<u>34,520,617</u>
Total assets	38,421,682

### Current Liabilities

Accounts payable	455,241
Accrued and other liabilities	121,958
Current portion of long-term debt (Note 8)	<u>581,505</u>
Total current liabilities	1,158,704

### Noncurrent Liabilities - Long-term debt - Net of current portion (Note 8)

13,084,081

### Total liabilities

14,242,785

### Net Assets

Investment in capital assets - Net of related debt	19,594,604
Restricted:	
Debt service	258,000
Wastewater treatment plant replacement	1,139,041
Unrestricted (Note 17)	<u>3,187,252</u>
Total net assets	<u><u>\$ 24,178,897</u></u>

# City of Saline, Michigan

## Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

### Operating Revenue

Sale of water	\$ 1,102,342
Sewage disposal charges	1,626,810
Other charges for services	<u>101,753</u>

Total operating revenue 2,830,905

### Operating Expenses

Cost of water produced/purchased	544,649
Cost of sewage treatment	975,742
Operation and maintenance	92,732
General and administrative	238,200
Depreciation	<u>647,317</u>

Total operating expenses 2,498,640

Operating Income 332,265

### Nonoperating Revenue (Expense)

Investment income	69,204
Interest expense	<u>(451,921)</u>

Total nonoperating expense (382,717)

Loss - Before capital contributions (50,452)

### Capital Contributions

Customer connection fees	307,375
Contributions from LDFA and TIFA	<u>384,849</u>

Total capital contributions 692,224

Change in Net Assets 641,772

Net Assets - Beginning of year 23,537,125

Net Assets - End of year \$ 24,178,897



# City of Saline, Michigan

## **Proprietary Fund - Enterprise Fund - Water and Sewer Fund** **Statement of Cash Flows** **Year Ended June 30, 2005**

### **Cash Flows from Operating Activities**

Receipts from customers	\$ 2,680,762
Payments to suppliers	(1,163,061)
Payments to employees	(524,336)
Payments to General Fund for administrative costs	(238,200)
Other receipts	<u>101,753</u>

Net cash provided by operating activities 856,918

### **Cash Flows from Capital and Related Financing Activities**

Benefit charges received from customers	307,375
Contributions from financing authorities	389,057
Proceeds from issuance of long-term debt	4,810,281
Principal, interest, and other paid on capital debt	(990,865)
Acquisition of capital assets	<u>(4,917,023)</u>

Net cash used in capital and related financing activities (401,175)

**Cash Flows from Investing Activities - Interest earnings** 69,204

**Net Increase in Cash and Cash Equivalents** 524,947

**Cash and Cash Equivalents - Beginning of year** 3,416,814

**Cash and Cash Equivalents - End of year** **\$ 3,941,761**

### **Classification of Cash and Cash Equivalents**

Cash and cash equivalents	\$ 2,544,720
Restricted cash and cash equivalents	<u>1,397,041</u>

Total cash and cash equivalents **\$ 3,941,761**

### **Reconciliation of Operating Income to Net Cash from Operating Activities**

Operating income	\$ 332,265
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	647,317
Changes in assets and liabilities:	
Receivables	(48,390)
Accounts payable	(98,443)
Accrued and other liabilities	<u>24,169</u>

Net cash provided by operating activities **\$ 856,918**

# City of Saline, Michigan

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## **Fiduciary Fund Statement of Assets and Liabilities June 30, 2005**

Agency Fund

**Assets** - Cash and cash equivalents (Note 3)

**\$ 454,978**

**Liabilities**

Accounts payable \$ 16,744

Accrued and other liabilities 397,125

Due to other governmental units 41,109

Total liabilities **\$ 454,978**

# City of Saline, Michigan

## Component Units Statement of Net Assets June 30, 2005

	Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Economic Development Trust	Total
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 220,069	\$ 1,391,370	\$ 777,081	\$ 28,210	\$ 2,416,730
Receivables - Loans and land contracts	-	-	-	2,171	2,171
Due from other governmental units	-	135,000	-	-	135,000
Capital assets (Note 5)	-	-	40,749	-	40,749
<b>Total assets</b>	<b>220,069</b>	<b>1,526,370</b>	<b>817,830</b>	<b>30,381</b>	<b>2,594,650</b>
<b>Liabilities</b>					
Accounts payable	12,557	-	400	-	12,957
Due to primary government (Note 6)	9,139	868,781	521,905	-	1,399,825
Due to other governmental units	135,000	372,840	-	-	507,840
Accrued and other liabilities	-	-	-	2,172	2,172
Noncurrent liabilities (Note 8):					
Due within one year	-	-	70,000	-	70,000
Due in more than one year	-	-	225,000	-	225,000
<b>Total liabilities</b>	<b>156,696</b>	<b>1,241,621</b>	<b>817,305</b>	<b>2,172</b>	<b>2,217,794</b>
<b>Net Assets</b>					
Investment in capital assets - Net of related debt	-	-	40,749	-	40,749
Restricted per trust guidelines	-	-	-	28,209	28,209
Unrestricted	63,373	284,749	(40,224)	-	307,898
<b>Total net assets</b>	<b>\$ 63,373</b>	<b>\$ 284,749</b>	<b>\$ 525</b>	<b>\$ 28,209</b>	<b>\$ 376,856</b>

# City of Saline, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Economic Development Corporation	\$ 157,390	\$ 7,476	\$ 135,000
Tax Increment Finance Authority	1,203,653	-	-
Local Development Finance Authorities	655,696	-	-
Economic Development Trust	22,151	5,145	-
Total governmental activities	<b><u>\$ 2,038,890</u></b>	<b><u>\$ 12,621</u></b>	<b><u>\$ 135,000</u></b>

## General revenues:

Property taxes

Interest

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets				
Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Economic Development Trust	Total
\$ (14,914)	\$ -	\$ -	\$ -	\$ (14,914)
-	(1,203,653)	-	-	(1,203,653)
-	-	(655,696)	-	(655,696)
-	-	-	(17,006)	(17,006)
(14,914)	(1,203,653)	(655,696)	(17,006)	(1,891,269)
-	1,141,528	680,173	-	1,821,701
1,154	34,648	18,779	1,103	55,684
1,154	1,176,176	698,952	1,103	1,877,385
(13,760)	(27,477)	43,256	(15,903)	(13,884)
77,133	312,226	(42,731)	44,112	390,740
<b>\$ 63,373</b>	<b>\$ 284,749</b>	<b>\$ 525</b>	<b>\$ 28,209</b>	<b>\$ 376,856</b>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Saline, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Saline, Michigan:

#### **Reporting Entity**

The City of Saline, Michigan is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Saline, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is a City-created and directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority was created during the fiscal year ended June 30, 1990. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The assets of the Building Authority held for payment of construction costs associated with the new municipal building and outstanding bond issues are reported in the Capital Projects Fund and Saline Recreation Complex Special Revenue Fund, respectively, along with the related liability associated with the bond issue.

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the other supplemental information section.

- a. The Local Development Finance Authorities (LDFA) and the Tax Increment Finance Authority (TIFA) (collectively, the "Authorities") were created to promote economic growth and business development within the community. The Authorities' governing bodies each consist of 11 individuals who are selected by the City Council. In addition, each Authority's budget is subject to approval by the City Council.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

- b. The Economic Development Corporation (EDC) and Economic Development Trust (ED Trust) were created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's and the ED Trust's governing bodies each consist of 11 individuals who are selected by the City Council.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. For example, property taxes, State-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The category of General Fund shown in these financial statements is the sum of the City's General Fund, the Fire Special Assessment Fund, and the Refuse Fund.

**Major Streets and Local Streets Funds** - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through state-shared revenues and miscellaneous local sources.



### **Note I - Summary of Significant Accounting Policies (Continued)**

**Municipal Street Fund** - The Municipal Street Fund is used to account for the development, construction, and improvements of major and local streets financed by the issuance of debt.

**Saline Recreation Complex Fund** - The Saline Recreation Complex Fund accounts for recreation and culture activities within the City which are financed through various user charges and miscellaneous local sources.

The City reports the following major proprietary fund:

**Enterprise Fund** - The Enterprise Fund is used to account for the results of operations that provide water and sewer service to citizens that are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund types:

**Agency Fiduciary Fund** - The Agency Fiduciary Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

The proprietary fund, the Water and Sewer Fund, distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. In addition, the fund recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

**Investments** - Investments are reported at fair value, based on quoted market prices.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

### Note I - Summary of Significant Accounting Policies (Continued)

**Restricted Assets** - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. In addition, the bonds issued by the Saline Recreation Complex Fund require certain amounts be set aside for upcoming debt service payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

#### **Governmental Activities**

Infrastructure	10 to 50 years
Buildings and improvements	8 to 50 years
Vehicles and equipment	3 to 20 years

#### **Business-type Activities**

Land improvements	5 to 20 years
Water and sewer lines and laterals	75 to 100 years
Wellsite	50 years
Buildings, treatment plant, and equipment	10 to 40 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual revenues and expenditures to the General, Major Streets, Local Streets, Municipal Streets, and Saline Recreation Complex Funds' budgets as adopted by the City Council is included in the supplemental information. There were no significant expenditure budget overruns during the year with the exception the following:

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
General Fund - Recreational and cultural:				
Parks and beautification	\$ 354,806	\$ 357,847	\$ 387,213	\$ (29,366)
Celtic festival	107,800	107,800	118,271	(10,471)

The expenditure overruns resulted from higher than anticipated general operational costs.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; investment pools which are allowed by specific state statutes; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 11 banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, as well as the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

### Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does have a deposit policy for custodial credit risk, requiring diversification among banks to increase FDIC coverage (which totaled approximately \$800,000 at year end) and depositing beyond FDIC insurance only in banks that have superior financial ratios listed by the rating agencies. At year end, the City had \$4,369,191 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Type of Investment	Carrying Value	How Held
U.S. government or agency bond or notes	\$ 1,401,588	Counterparty

### Note 3 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	- Fair Value	Weighted Average Maturity
U.S. government or agency bond or note	\$ 1,401,588	3.29 years

#### Concentration of Credit Risk

The City does limit the amount the City may invest in any one issuer. The City currently has no one investment which exceeds 5 percent of its total investments.

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The City restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

#### Pool and Sweep Accounts that are 2a7-like Investments

At year end, the City had investments in three government investment funds that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These funds are fully liquid for withdrawal at any time and the price per unit does not fluctuate with interest earned according to the amount and duration of investment. These pools are not rated and the GASB Statement No. 40 disclosures do not otherwise apply, but each of the three funds does fully comply with Michigan's Public Act 20 of 1943 as amended.

At year end, the City had \$753,682 in this type of fund at Comerica Bank, plus \$3,733,448 in such a fund at Key Bank (Victory Federal Money Market Investor), plus \$917,536 in such a fund with MBIA Asset Management Group (Michigan CLASS).

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	Major Governmental Funds		Nonmajor Governmental Fund		Business-type Activities		
	General Fund	Saline Recreation Complex	Cemetery Perpetual Care	Total Governmental Activities	(Water and Sewer)	Total	Component Units
Receivables:							
Accounts	\$ 167,238	\$ -	\$ -	\$ 167,238	\$ 599,163	\$ 766,401	\$ -
Interest and other	3,028	18,430	2,169	23,627	-	23,627	2,171
Net receivables	<u>\$ 170,266</u>	<u>\$ 18,430</u>	<u>\$ 2,169</u>	<u>\$ 190,865</u>	<u>\$ 599,163</u>	<u>\$ 790,028</u>	<u>\$ 2,171</u>

### Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,343,574	\$ -	\$ (31,863)	\$ 1,311,711
Construction in progress	-	35,613	-	35,613
Subtotal	1,343,574	35,613	(31,863)	1,347,324
Capital assets being depreciated:				
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	32,748,010	1,392,176	(1,465,522)	32,674,664
Buildings and improvements	13,437,550	531,956	-	13,969,506
Vehicles and equipment	2,921,769	86,107	(24,244)	2,983,632
Subtotal	49,107,329	2,010,239	(1,489,766)	49,627,802
Accumulated depreciation:				
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	13,793,592	1,392,460	(1,062,733)	14,123,319
Buildings and improvements	4,411,922	479,384	-	4,891,306
Vehicles and equipment	1,807,443	193,125	(20,845)	1,979,723
Subtotal	20,012,957	2,064,969	(1,083,578)	20,994,348
Net capital assets being depreciated	29,094,372	(54,730)	(406,188)	28,633,454
Net capital assets	<u>\$ 30,437,946</u>	<u>\$ (19,117)</u>	<u>\$ (438,051)</u>	<u>\$ 29,980,778</u>



# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Reclassifications	Additions	Balance June 30, 2005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 186,933	\$ -	\$ -	\$ 186,933
Construction in progress	<u>4,531,957</u>	<u>(4,198,478)</u>	<u>18,908</u>	<u>352,387</u>
Subtotal	4,718,890	(4,198,478)	18,908	539,320
Capital assets being depreciated:				
Land improvements	7,141	250,202	354,287	611,630
Water and sewer lines and laterals	20,647,145	-	535,088	21,182,233
Wellsite	226,746	-	-	226,746
Buildings, treatment plant, and equipment	<u>11,969,497</u>	<u>3,948,276</u>	<u>2,366,597</u>	<u>18,284,370</u>
Subtotal	32,850,529	4,198,478	3,255,972	40,304,979
Accumulated depreciation:				
Land improvements	6,120	-	4,579	10,699
Water and sewer lines and laterals	2,298,744	-	197,243	2,495,987
Wellsite	31,693	-	4,535	36,228
Buildings, treatment plant, and equipment	<u>4,736,849</u>	<u>-</u>	<u>440,960</u>	<u>5,177,809</u>
Subtotal	<u>7,073,406</u>	<u>-</u>	<u>647,317</u>	<u>7,720,723</u>
Net capital assets being depreciated	<u>25,777,123</u>	<u>4,198,478</u>	<u>2,608,655</u>	<u>32,584,256</u>
Net capital assets	<u>\$ 30,496,013</u>	<u>\$ -</u>	<u>\$ 2,627,563</u>	<u>\$ 33,123,576</u>

Depreciation expense was charged to programs of the governmental activities in the primary government as follows:

General government	\$ 120,862
Public safety	41,636
Public works	5,962
Cemetery	1,390
Recreation and culture	290,821
Highways and streets	1,462,577
Unallocated	<u>141,721</u>
Total governmental activities	<u>\$ 2,064,969</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has various active construction projects at year end. The City's construction projects include the 2004 General Obligation Water Bond issue, 2004 Unlimited Tax General Obligation Bond issue, as well as various other City funds specifically allocated toward various capital improvements within the City. At year end, the City's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Water treatment plant	\$ 5,480,148	\$ 5,072,002	\$ 408,146
Major and local streets projects	539,165	17,767	521,398
Water and sewer projects	30,398	18,908	11,490
Total	<u>\$ 6,049,711</u>	<u>\$ 5,108,677</u>	<u>\$ 941,034</u>

Capital assets of the component units consist of land of \$40,749 and fully depreciated equipment of \$97,034. There were no additions or disposals of capital assets in the component units during the year ended June 30, 2005.

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Permanent Fund - Cemetery Perpetual Care	\$ 43,209
	Major Streets Fund	1,295
	Municipal Streets Fund	450,000
Total General Fund		494,504
Major Streets Fund	Municipal Streets Fund	80,826
	Local Streets Fund	189,650
	General Fund	749
Total Major Streets Fund		271,225

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Due to/from other funds (Continued):		
Local Streets Fund	Major Streets Fund	\$ 210
	Municipal Streets Fund	<u>275,910</u>
Total Local Streets Fund		276,120
Municipal Streets Fund	Major Streets Fund	<u>64,921</u>
Total		<u>\$ 1,106,770</u>
Due to/from primary government and component units:		
Primary government - General Fund	Component unit - Economic Development Corporation	\$ 9,139
	Component unit - Local Development Finance Authorities	8,769
	Component unit - Tax Increment Finance Authority	<u>241,884</u>
Total General Fund		259,792
Primary Government - Major Streets Fund	Component unit - Tax Increment Finance Authority	130,808
	Component unit - Local Development Finance Authorities	<u>267,408</u>
Total Major Streets Fund		<u>398,216</u>
Total governmental activities		658,008
Primary Government - Enterprise Fund	Component unit - Tax Increment Finance Authority	496,089
	Component unit - Local Development Finance Authorities	<u>245,728</u>
Total business-type activities		<u>741,817</u>
Total		<u>\$ 1,399,825</u>

Interfund balances and amounts due between the City and its component units represent routine and temporary cash flow assistance resulting from interfund activity until the amounts can be reimbursed.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Major Streets Fund (3)	\$ 273,663
	Capital Projects - Building Authority (3)	329,085
	Saline Recreation Complex Fund (2)	325,000
	Saline Recreation Complex Fund (3)	<u>45,000</u>
Total General Fund		972,748
Municipal Streets Fund	Major Streets Fund (1)	500,000
	Local Streets Fund (1)	<u>278,115</u>
Total Municipal Fund		<u>778,115</u>
Local Streets Fund	Major Streets Fund (1)	<u>189,650</u>
Total		<u>\$ 1,940,513</u>

The following describes the nature of the transfers:

- (1) Transfers for capital improvements
- (2) Transfers of discretionary funds to be used for the benefit of the community
- (3) Transfer for debt service

### Note 7 - Leases

**Operating Leases** - The Economic Development Corporation leases an office building under a long-term operating lease agreement expiring in October 2007 with approximate minimum lease payments of \$29,000.

Rent expense for the year ended June 30, 2005 was approximately \$28,400.

### Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bonds:							
1979 General Obligation Unlimited Tax Bonds							
Amount of issue - \$400,000							
Maturing through 2010	\$5,000-\$25,000	6.60%-7.00%	\$ 130,000	\$ -	\$ 25,000	\$ 105,000	\$ 25,000
1991 General Obligation Road Bonds (Unlimited Tax)							
Amount of issue - \$960,000							
Maturing through 2006	\$130,000	6.25%	250,000	-	120,000	130,000	130,000
1998 Transportation Fund Bonds							
Amount of issue - \$1,075,000							
Maturing through 2014	\$90,000-\$115,000	4.25%-4.65%	930,000	-	85,000	845,000	90,000
2004 Building Authority (Recreational Facilities) Refunding Bond							
Amount of issue - \$2,375,000							
Maturing through 2010	\$395,000-\$430,000	2.50%-3.00%	2,375,000	-	310,000	2,065,000	395,000
2000 Building Authority General Obligation Limited Tax Bonds							
Amount of issue - \$4,000,000							
Maturing through 2020	\$150,000-\$325,000	4.90%-5.65%	3,540,000	-	140,000	3,400,000	150,000
2001 General Obligation Road Bonds (Unlimited Tax)							
Amount of issue - \$3,000,011							
Maturing through 2021	\$109,272-\$238,411	4.60%-4.70%	2,783,952	-	101,821	2,682,131	109,272
2004 Unlimited Tax General Obligation							
Amount of issue - \$4,500,000							
Maturing through 2024	\$106,223-\$357,296	3.00%-4.50%	4,500,000	-	-	4,500,000	106,223
Revenue bonds:							
1998 Revenue Bonds							
Amount of issue - \$1,000,000							
Maturing through 2008	\$100,806-\$129,739	4.00%	475,031	-	119,805	355,226	124,681
Installment purchase agreements:							
Dectron Unit purchase obligation	\$59,057	3.25%	-	413,400	-	413,400	59,057
Heating and cooling system purchase obligation			767	-	767	-	-
Total bonds and installment obligations			14,984,750	413,400	902,393	14,495,757	1,189,233
Compensated absences			831,560	570,898	525,923	876,535	526,000
Total governmental activities			\$ 15,816,310	\$ 984,298	\$ 1,428,316	\$ 15,372,292	\$ 1,715,233

### Note 8 - Long-term Debt (Continued)

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:							
General obligation bonds:							
1999 General Obligation Limited Tax Bonds							
Amount of issue - \$1,197,279							
Maturing through 2018	\$55,000-\$77,279	2.50%	\$ 987,279	\$ -	\$ 50,000	\$ 937,279	\$ 55,000
1998 General Obligation Limited Tax Bonds							
Amount of issue - \$1,375,000							
Maturing through 2019	\$65,000-\$85,000	2.50%	1,090,000	-	60,000	1,030,000	65,000
1998 General Obligation Limited Tax Refunding Bonds							
Amount of issue - \$990,000							
Maturing through 2006	\$60,000	4.10%	125,000	-	65,000	60,000	60,000
2001 General Obligation Bonds							
Amount of issue - \$3,039,989							
Maturing through 2021	\$110,728-\$241,588	4.60%-4.70%	2,821,048	-	103,179	2,717,869	110,728
2004 Unlimited Tax General Obligation Bonds							
Amount of issue - \$160,000							
Maturing through 2024	\$3,777-\$12,704	3.00%-4.50%	160,000	-	-	160,000	3,777
2004 General Obligation Water Bond							
Amount of issue - \$6,840,000	\$178,824-\$410,000	2.50%	1,358,543	4,810,281	-	6,168,824	-
Revenue bonds:							
1987 Revenue Bonds							
Amount of issue - \$1,300,000							
Maturing through 2008	\$100,000-\$110,000	8.75%	420,000	-	100,000	320,000	100,000
1993 Revenue Bonds							
Amount of issue - \$350,000							
Maturing through 2009	\$35,000-\$60,000	5.90%	200,000	-	25,000	175,000	35,000
1998 Revenue Bonds							
Amount of issue - \$2,335,000							
Maturing through 2017	\$70,000-\$220,000	4.70%	2,025,000	-	65,000	1,960,000	70,000
Installment purchase agreement - Sand filter equipment obligation		5.15%	70,764	-	70,764	-	-
Total bonds and installment obligation			9,257,634	4,810,281	538,943	13,528,972	499,505
Compensated absences			111,589	106,993	81,968	136,614	82,000
Total business-type activities			\$ 9,369,223	\$ 4,917,274	\$ 620,911	\$ 13,665,586	\$ 581,505

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,189,233	\$ 616,487	\$ 1,805,720	\$ 499,505	\$ 480,244	\$ 979,749
2007	1,116,055	574,538	1,690,593	727,742	452,950	1,180,692
2008	1,138,714	534,427	1,673,141	761,149	422,414	1,183,563
2009	1,087,017	493,470	1,580,487	757,040	395,300	1,152,340
2010	1,109,124	453,251	1,562,375	724,924	368,020	1,092,944
2011-2015	3,427,534	1,750,033	5,177,567	4,045,580	1,445,506	5,491,086
2016-2020	3,847,392	933,029	4,780,421	3,964,887	715,628	4,680,515
2021-2025	1,580,688	164,500	1,745,188	2,048,145	198,053	2,246,198
Total	\$ 14,495,757	\$ 5,519,735	\$ 20,015,492	\$ 13,528,972	\$ 4,478,115	\$ 18,007,087

### Note 8 - Long-term Debt (Continued)

Subsequent to June 30, 2005, the City issued new debt at 3.89 percent net interest cost, in the amount of \$4,500,000 to construct a new Department of Public Works facility and \$1,500,000 for improvements to the existing recreation complex. The general operating millage of the City had been raised in order to cover the new debt service, plus a six-year grant total of \$800,000 was received from the discretionary portion of the school district recreational millage, which will cover much of the first six years of new debt service for the recreational complex improvements.

#### Additional Resources

The Local Development and Tax Increment Finance Authorities have committed to pay certain obligations of the City of Saline and to provide funding to the Economic Development Corporation to the extent that future property tax captures are sufficient to do so. The estimated amounts that may be paid under these commitments are as follows:

	Tax Increment Finance Authority	Local Development Finance Authority - Shelton District	Total
2006	\$ 652,099	\$ 459,016	\$ 1,111,115
2007	654,117	463,465	1,117,582
2008	650,689	462,047	1,112,736
2009	592,788	447,489	1,040,277
2010	593,791	450,597	1,044,388
2011-2015	1,342,442	1,998,234	3,340,676
2016-2020	821,342	1,178,853	2,000,195
2021	165,994	180,972	346,966
Total	<u>\$ 5,473,262</u>	<u>\$ 5,640,673</u>	<u>\$ 11,113,935</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Long-term Debt (Continued)

The estimated amounts that may be received by the City and the Economic Development Corporation under these commitments are as follows:

	City of Saline	Economic Development Corporation	Total
2006	\$ 976,115	\$ 135,000	\$ 1,111,115
2007	982,582	135,000	1,117,582
2008	977,736	135,000	1,112,736
2009	905,277	135,000	1,040,277
2010	909,388	135,000	1,044,388
2011-2015	2,800,676	540,000	3,340,676
2016-2020	2,000,195	-	2,000,195
2021	346,966	-	346,966
Total	<u>\$ 9,898,935</u>	<u>\$ 1,215,000</u>	<u>\$ 11,113,935</u>

In addition, the Sauk Trail LDFA District has committed to repay the City monies advanced for projects performed within the School District during its initial startup. As of June 30, 2005, the commitment payable to the City's General and Major Streets Funds amounted to \$1,258,445 and \$283,998, respectively.

**Advance and Current Refundings** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. At June 30, 2005, \$2,130,000 of bonds outstanding are considered defeased.

Subsequent to June 30, 2005, the City defeased the 2000 Saline Building Authority bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds will be considered defeased and the liability for the bonds will be removed from the City's schedule of debt obligations. The advance refunding reduced the total debt service payments over the maturity of the bonds by approximately \$13,200 per year, which represents an economic gain of approximately \$124,590 net present value. The new bonds are payable through 2020 at interest rates ranging from 3.625 percent to 4.000 percent.



# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Long-term Debt (Continued)

Long-term obligations of the component units consist of 1993 Limited Tax General Obligation Bonds originally issued in the amount of \$605,000 maturing through 2009. The bonds mature in principal ranges varying from \$70,000 to \$75,000 at 5.80 percent to 6.10 percent. The balance outstanding on the bonds at June 30, 2005 and 2004 was \$295,000 and \$355,000, respectively, with \$70,000 due currently.

Annual debt service requirements to maturity for the above bond are as follows:

	Component Units		
	Principal	Interest	Total
2006	\$ 70,000	\$ 17,850	\$ 87,850
2007	75,000	13,650	88,650
2008	75,000	9,150	84,150
2009	75,000	4,575	79,575
Total	<u>\$ 295,000</u>	<u>\$ 45,225</u>	<u>\$ 340,225</u>

### Note 9 - Restricted Assets

Restricted assets at June 30, 2005 consist of the following:

Governmental activities - Saline Recreation Complex - Bond payment	\$ 19,365
Business-type activities:	
Bond redemption	24,500
Water and sewer 10 percent bond reserve	233,500
Wastewater treatment plant replacement	<u>1,139,041</u>
Total business-type activities	<u>1,397,041</u>
Total	<u>\$ 1,416,406</u>

### **Note 10 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries and the Michigan Townships Participating Plan for claims related to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

### **Note 11 - Postemployment Benefits**

The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 22 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$247,000.

#### **Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 11 - Postemployment Benefits (Continued)**

In connection with the upcoming reporting change, the City has established a trust to which annual contributions are made in order to fund future postemployment benefits. The trust was established through the Municipal Employees' Retirement System of Michigan (MERS) Health Care Saving Program. The City contributed approximately \$179,000 during the year ended June 30, 2005.

### **Note 12 - Pension Plan**

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by Council resolution and negotiation with the employee competitive bargaining units and requires no contribution from the employees.

**Annual Pension Costs** - For the year ended June 30, 2005, the City's annual pension cost of \$532,634 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases ranging from 4.5 percent to 12.9 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is seven years.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 12 - Pension Plan (Continued)

Trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2004	2003
Annual pension costs (APC)	\$ 532,634	\$ 458,575	\$ 418,556
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

  

	Valuation as of December 31		
	2004	2003	2002
Actuarial value of assets	\$ 10,202,718	\$ 9,690,869	\$ 9,130,540
Actuarial accrued liability (AAL) (entry age)	\$ 14,635,671	\$ 13,304,568	\$ 12,494,600
Unfunded AAL (UAAL)	\$ 4,432,953	\$ 3,613,699	\$ 3,364,060
Funded ratio	70%	73%	73%
Covered payroll	\$ 3,396,245	\$ 3,068,565	\$ 2,975,046
UAAL as a percentage of covered payroll	131%	118%	113%

### Note 13 - Designated Fund Balance

Fund balance has been designated in the General Fund as follows:

Bixby Puppets donations	\$ 1,671
Act 302 Police Training	7,030
Celtic festival	58,960
DARE	27,047
E911 Secondary PSAP	145,106
State 911 Dispatch Training	5,439
Total	<u>\$ 245,253</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 14 - Related Party Transactions

The City participates as a member of the Saline Area Fire Department, which provides fire protection services to the residents of the City of Saline and Lodi, York, and Saline Townships. The participating communities provide annual funding for its operations, fire runs, and capital improvements. During the current year, the City contributed the following:

Operations	\$ 270,767
Fire runs	<u>12,263</u>
Total	<u>\$ 283,030</u>

The City's equity interest in this joint venture is \$548,359.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Saline Area fire department can be obtained from the administrative offices at the City of Saline, 100 North Harris, Saline, Michigan.

### Note 15 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2005 is as follows:

Shortfall - Beginning of year	\$ (295,558)
Current year building permit revenue	\$ 185,469
Related expenses:	
Direct costs	\$ 206,587
Estimated indirect costs	<u>76,538</u>
Total expenses	<u>283,125</u>
Current year shortfall	<u>(97,656)</u>
Cumulative shortfall - End of year	<u>\$ (393,214)</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 16 - Property Taxes

Property taxes in the City's General Fund are comprised of the following components:

	Solid Waste and			
	Recycling	Operating	Debt	Total
Taxable value	\$ 450,579,697	\$ 450,579,697	\$ 450,579,697	\$ 450,579,697
Millage rate	1.3000	11.7078	0.7122	13.7200
Levy	\$ 585,754	\$ 5,275,297	\$ 320,903	\$ 6,181,954
Less IFTs	\$ (26,008)	\$ (234,228)	\$ (14,249)	\$ (274,485)
Less TIFA	\$ (36,496)	\$ (165,152)	\$ (163,537)	\$ (365,185)
Less LDFA	\$ (30,310)	\$ (114,319)	\$ (158,649)	\$ (303,278)
Total collectible revenue	\$ 492,940	\$ 4,761,598	\$ (15,532)	\$ 5,239,006
Delinquent taxes	\$ 1,042	\$ (89,058)	\$ 336,435	\$ 248,419
2005 property tax revenue	\$ 493,982	\$ 4,672,540	\$ 320,903	\$ 5,487,425

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on September 1, with the final collection date of February 28 before they are added to the county tax rolls.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2005

### Note 16 - Property Taxes (Continued)

The solid waste and recycling millage was approved specifically for the use in providing those services to the City. The debt millage is dedicated to the retirement of specific long-term debt. To the extent property tax revenue exceeds related expenditures, the excess amounts are reserved for those specific uses. The activity relating to the solid waste and recycling and debt for the year ended June 30, 2005 is as follows:

	Solid Waste and Recycling	Debt
Revenue:		
Property tax revenue	\$ 493,982	\$ 320,903
Other	23,305	-
Total revenue	517,287	320,903
Direct expenses	520,090	306,736
Excess (shortfall) of revenue over expenditures	(2,803)	14,167
Reserved fund balance - Beginning of year	63,113	(15,913)
Reserved fund balance - End of year	<u>\$ 60,310</u>	<u>\$ (1,746)</u>

### Note 17 - Water and Sewer Unrestricted Net Assets

The City estimates that approximately \$1,000,000 will be needed during the next two years for various water and sewer improvements and construction. Therefore, the City believes that a majority of the Water and Sewer Fund's unrestricted net assets will remain available for future needs.

### Note 18 - Subsequent Event

On October 12, 2005, the City closed on new multipurpose General Obligation Capital Improvement Bonds totaling \$6,000,000 at an interest rate range of 3.65 percent to 4 percent. The bonds are payable through 2025, with \$4.5 million for a new Department of Public Works facility and \$1.5 million at the existing recreation complex facility.

## **Required Supplemental Information**

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# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Property taxes	\$ 5,503,902	\$ 5,521,301	\$ 5,487,425	\$ (33,876)
Licenses and permits	187,700	187,700	250,546	62,846
Federal sources	174,000	7,468	24,705	17,237
State sources	863,361	940,118	836,015	(104,103)
Charges for services	757,215	817,466	777,035	(40,431)
Fines and court costs	80,500	110,500	129,697	19,197
Interest earnings	88,000	86,000	88,729	2,729
Special assessments	2,000	3,000	-	(3,000)
Land sales collections	264,000	1,035,703	486,703	(549,000)
Other	809,775	582,900	603,616	20,716
Total revenue	8,730,453	9,292,156	8,684,471	(607,685)
<b>Transfer from Other Funds</b>	-	41,000	-	(41,000)
Total revenue and transfers	8,730,453	9,333,156	8,684,471	(648,685)
<b>Expenditures</b>				
General government:				
Administration	1,175,111	1,354,354	1,049,096	305,258
Finance department	198,928	205,450	192,765	12,685
Assessor department	162,802	171,841	160,371	11,470
Clerks department	295,733	295,733	273,473	22,260
Treasurer department	259,155	257,905	255,370	2,535
Municipal buildings	127,000	141,800	128,890	12,910
Service center	75,120	96,439	63,142	33,297
Zoning board of appeals	4,050	4,050	100	3,950
Motor pool	285,765	292,265	270,036	22,229
Planning Commission	24,000	24,500	14,766	9,734
Total general government	2,607,664	2,844,337	2,408,009	436,328
Public safety:				
Police	1,935,610	2,019,284	1,910,081	109,203
Fire	574,150	568,150	568,183	(33)
Total public safety	2,509,760	2,587,434	2,478,264	109,170

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Expenditures (Continued)</b>				
Public works:				
Emergency preparedness	\$ 2,750	\$ 3,000	\$ 374	\$ 2,626
Public works	317,085	316,950	304,535	12,415
Storm drains	91,602	75,187	39,264	35,923
Sidewalks	34,495	33,510	22,714	10,796
Street lights	213,019	217,223	204,191	13,032
Mosquito control	15,000	21,605	3,632	17,973
Solid waste and recycling	541,285	542,891	520,090	22,801
Total public works	1,215,236	1,210,366	1,094,800	115,566
Cemetery	47,903	88,903	45,853	43,050
Recreational and cultural:				
Historical Commission	15,087	17,087	12,890	4,197
Parks and beautification	354,806	357,847	387,213	(29,366)
Celtic festival	107,800	107,800	118,271	(10,471)
Total recreation and culture	477,693	482,734	518,374	(35,640)
Debt service	130,892	130,892	130,859	33
Legislative:				
City Council	58,050	58,250	42,593	15,657
Elections	20,175	28,675	23,377	5,298
Total legislative	78,225	86,925	65,970	20,955
Engineering department	249,115	267,115	210,551	56,564
Building department	262,808	262,808	206,587	56,221
Capital outlay	542,096	434,802	264,528	170,274
Other	93,361	87,436	78,725	8,711
Total expenditures	8,214,753	8,483,752	7,502,520	981,232
<b>Transfers to Other Funds</b>	<u>797,724</u>	<u>972,748</u>	<u>972,748</u>	-
Total expenditures and transfers	<u>9,012,477</u>	<u>9,456,500</u>	<u>8,475,268</u>	<u>981,232</u>
<b>Revenue and Transfers Over (Under)</b>				
<b>Expenditures and Transfers</b>	(282,024)	(123,344)	209,203	<u><b>\$ 332,547</b></u>
<b>Fund Balance - Beginning of year</b>	<u>1,029,581</u>	<u>1,029,581</u>	<u>1,029,581</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 747,557</b></u>	<u><b>\$ 906,237</b></u>	<u><b>\$ 1,238,784</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Major Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue - State source</b>	\$ 460,000	\$ 445,000	\$ 446,151	\$ 1,151
<b>Transfer from Other Funds</b>	<u>2,273,639</u>	<u>963,313</u>	<u>963,313</u>	<u>-</u>
Total revenue and transfers	2,733,639	1,408,313	1,409,464	1,151
<b>Expenditures</b>				
General government	50,000	50,000	50,000	-
Highways and streets	1,916,462	951,641	691,441	260,200
Debt service	<u>482,235</u>	<u>482,198</u>	<u>281,141</u>	<u>201,057</u>
Total expenditures	<u>2,448,697</u>	<u>1,483,839</u>	<u>1,022,582</u>	<u>461,257</u>
<b>Revenue and Transfers Over (Under)</b>				
<b>Expenditures</b>	284,942	(75,526)	386,882	<u><b>\$ 462,408</b></u>
<b>Fund Balance - Beginning of year</b>	<u>566,672</u>	<u>566,672</u>	<u>566,672</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 851,614</b></u>	<u><b>\$ 491,146</b></u>	<u><b>\$ 953,554</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Local Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
State sources	\$ 134,000	\$ 134,000	\$ 128,803	\$ (5,197)
Interest earnings	<u>3,000</u>	<u>3,000</u>	<u>6,442</u>	<u>3,442</u>
Total revenue	137,000	137,000	135,245	(1,755)
<b>Transfer from Other Funds</b>	<u>-</u>	<u>278,115</u>	<u>278,115</u>	<u>-</u>
Total revenue and transfers	137,000	415,115	413,360	(1,755)
<b>Expenditures</b>				
General government	15,000	15,000	15,000	-
Highways and streets	<u>157,254</u>	<u>170,087</u>	<u>158,042</u>	<u>12,045</u>
Total expenditures	172,254	185,087	173,042	12,045
<b>Transfer to Other Funds</b>	<u>-</u>	<u>189,650</u>	<u>189,650</u>	<u>-</u>
Total expenditures and transfers	<u>172,254</u>	<u>374,737</u>	<u>362,692</u>	<u>12,045</u>
<b>Revenue and Transfers Over (Under) Expenditures and Transfers</b>	(35,254)	40,378	50,668	<u><b>\$ 10,290</b></u>
<b>Fund Balance - Beginning of year</b>	<u>143,479</u>	<u>143,479</u>	<u>143,479</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 108,225</b></u>	<u><b>\$ 183,857</b></u>	<u><b>\$ 194,147</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Capital Projects Fund Municipal Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b> - Interest earnings	\$ 60,000	\$ 50,000	\$ 40,613	\$ (9,387)
<b>Expenditures</b> - Highway and streets	782,000	803,031	577,484	225,547
<b>Transfer to Other Funds</b>	<u>2,000,000</u>	<u>778,115</u>	<u>778,115</u>	<u>-</u>
Total expenditures and transfers	<u>2,782,000</u>	<u>1,581,146</u>	<u>1,355,599</u>	<u>225,547</u>
<b>Expenditures and Transfers Over Revenue</b>	(2,722,000)	(1,531,146)	(1,314,986)	<u><b>\$ 216,160</b></u>
<b>Fund Balance</b> - Beginning of year	<u>3,851,378</u>	<u>3,851,378</u>	<u>3,851,378</u>	
<b>Fund Balance</b> - End of year	<u><b>\$ 1,129,378</b></u>	<u><b>\$ 2,320,232</b></u>	<u><b>\$ 2,536,392</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Saline Recreation Complex Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Charges for services	\$ 1,160,268	\$ 956,625	\$ 983,838	\$ 27,213
Interest earnings	3,500	3,200	710	(2,490)
Other	95,720	112,351	111,031	(1,320)
Total revenue	1,259,488	1,072,176	1,095,579	23,403
<b>Transfer from Other Funds</b>	195,000	370,000	370,000	-
<b>Proceeds from the Issuance of Debt</b>	-	413,400	413,400	-
Total revenue, transfers, and proceeds from the issuance of debt	1,454,488	1,855,576	1,878,979	23,403
<b>Expenditures</b>				
General government	11,500	11,500	11,500	-
Recreational and cultural	1,231,260	1,180,540	1,099,537	81,003
Capital outlay	101,000	561,448	495,454	65,994
Debt service	112,375	99,106	98,946	160
Total expenditures	1,456,135	1,852,594	1,705,437	147,157
<b>Revenue, Transfers, and Proceeds from the Issuance of Debt Over (Under) Expenditures</b>	(1,647)	2,982	173,542	<b>\$ 170,560</b>
<b>Fund Balance - Beginning of year</b>	35,143	35,143	35,143	
<b>Fund Balance - End of year</b>	<b>\$ 33,496</b>	<b>\$ 38,125</b>	<b>\$ 208,685</b>	

## **Other Supplemental Information**

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# City of Saline, Michigan

## Other Supplemental Information Components of the General Fund Balance Sheet June 30, 2005

	General	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 430,412	\$ 13,146	\$ 79,361	\$ 522,919
Receivables - Net	170,266	-	-	170,266
Due from other governmental units	171,562	-	6,075	177,637
Due from other funds	494,504	-	-	494,504
Due from component units	241,906	-	17,886	259,792
Total assets	<u>\$ 1,508,650</u>	<u>\$ 13,146</u>	<u>\$ 103,322</u>	<u>\$ 1,625,118</u>
<b>Liabilities</b>				
Accounts payable	\$ 252,872	\$ 1,364	\$ 43,012	\$ 297,248
Accrued and other liabilities	88,337	-	-	88,337
Due to other funds	749	-	-	749
Total liabilities	341,958	1,364	43,012	386,334
<b>Fund Balances</b>				
Reserved	-	-	60,310	60,310
Unreserved:				
Designated	245,253	-	-	245,253
Undesignated	921,439	11,782	-	933,221
Total fund balances	<u>1,166,692</u>	<u>11,782</u>	<u>60,310</u>	<u>1,238,784</u>
Total liabilities and fund balances	<u>\$ 1,508,650</u>	<u>\$ 13,146</u>	<u>\$ 103,322</u>	<u>\$ 1,625,118</u>



# City of Saline, Michigan

## Other Supplemental Information Components of the General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2005

	General Fund	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
<b>Revenue</b>				
Property taxes	\$ 4,993,443	\$ -	\$ 493,982	\$ 5,487,425
Licenses and permits	250,546	-	-	250,546
Federal sources	24,705	-	-	24,705
State sources	817,454	-	18,561	836,015
Charges for services	777,035	-	-	777,035
Fines and court costs	129,697	-	-	129,697
Interest earnings	83,353	632	4,744	88,729
Land sale collections	486,703	-	-	486,703
Other	318,293	285,323	-	603,616
Total revenue	7,881,229	285,955	517,287	8,684,471
<b>Expenditures</b>				
Current:				
General government	2,408,009	-	-	2,408,009
Public safety	2,193,656	284,608	-	2,478,264
Public works	574,710	-	520,090	1,094,800
Cemetery	45,853	-	-	45,853
Recreation and culture	518,374	-	-	518,374
Legislative	65,970	-	-	65,970
Building department	206,587	-	-	206,587
Engineering department	210,551	-	-	210,551
Other	78,725	-	-	78,725
Capital outlay	264,528	-	-	264,528
Debt service	130,859	-	-	130,859
Total expenditures	6,697,822	284,608	520,090	7,502,520
<b>Excess of Revenue Over (Under) Expenditures</b>	1,183,407	1,347	(2,803)	1,181,951
<b>Other Financing Uses - Transfers out</b>	(972,748)	-	-	(972,748)
Total other financing uses	(972,748)	-	-	(972,748)
<b>Excess of Revenue Over (Under) Expenditures and Other Uses</b>	210,659	1,347	(2,803)	209,203
<b>Fund Balances - Beginning of year</b>	956,033	10,435	63,113	1,029,581
<b>Fund Balances - End of year</b>	<u>\$ 1,166,692</u>	<u>\$ 11,782</u>	<u>\$ 60,310</u>	<u>\$ 1,238,784</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Economic Development Corporation June 30, 2005

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	<u>\$ 220,069</u>	\$ -	\$ 220,069
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Accounts payable	\$ 12,557	-	12,557
Due to other governmental units	135,000	-	135,000
Due to primary government	<u>9,139</u>	<u>-</u>	<u>9,139</u>
Total liabilities	156,696	-	156,696
<b>Fund Equity</b> - Fund balance - Unreserved -			
Designated for subsequent year's expenditures	<u>63,373</u>	<u>(63,373)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 220,069</u>		
<b>Net Assets</b> - Unrestricted		<u>63,373</u>	<u>63,373</u>
Total net assets		<u>\$ -</u>	<u>\$ 63,373</u>

# City of Saline, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Economic Development Corporation Year Ended June 30, 2005

	Modified Accrual Basis			Statement of Activities
	Budget	Actual	Adjustments	
<b>Revenue</b>				
Contribution from the Tax Increment Finance				
Authority of the City of Saline	\$ 135,000	\$ 135,000	\$ -	\$ 135,000
Fees and charges for services	6,400	7,476	-	7,476
Interest and other	616	1,154	-	1,154
Total revenue	142,016	143,630	-	143,630
<b>Expenditures</b>				
Administrative	22,000	22,000	-	22,000
Community events	30,750	24,290	-	24,290
Community relations	2,000	4,633	-	4,633
Conferences and training	1,500	90	-	90
Other	1,500	1,862	-	1,862
Professional services	45,309	30,441	-	30,441
Promotional improvements	41,300	37,416	-	37,416
Rental expense	28,405	28,404	-	28,404
Repairs and maintenance	4,000	2,303	-	2,303
Supplies and postage	1,000	233	-	233
Utilities	7,300	5,718	-	5,718
Total expenditures	185,064	157,390	-	157,390
<b>Excess of Expenditures Over Revenue/Change in Net Assets</b>	(43,048)	(13,760)	-	(13,760)
<b>Fund Balance/Net Assets - Beginning of year</b>	77,133	77,133	-	77,133
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 34,085</u>	<u>\$ 63,373</u>	<u>\$ -</u>	<u>\$ 63,373</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Tax Increment Finance Authority June 30, 2005

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 1,391,370	\$ -	\$ 1,391,370
Due from other governmental units	<u>135,000</u>	<u>-</u>	<u>135,000</u>
Total assets	<u><b>\$ 1,526,370</b></u>	-	1,526,370
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Due to other governmental units	\$ 372,840	-	372,840
Due to primary government	<u>868,781</u>	<u>-</u>	<u>868,781</u>
Total liabilities	1,241,621	-	1,241,621
<b>Fund Equity</b> - Fund balance - Unreserved -			
Designated for subsequent year's expenditures	<u>284,749</u>	<u>(284,749)</u>	<u>-</u>
Total liabilities and fund equity	<u><b>\$ 1,526,370</b></u>		
<b>Net Assets</b> - Unrestricted		<u>284,749</u>	<u>284,749</u>
Total net assets		<u><b>\$ -</b></u>	<u><b>\$ 284,749</b></u>

# City of Saline, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Tax Increment Finance Authority Year Ended June 30, 2005

	Modified Accrual Basis			Statement of Activities
	Budget	Actual	Adjustments	
<b>Revenue</b>				
Contribution from the City of Saline - General				
Property taxes	\$ 1,140,653	\$ 1,141,528	\$ -	\$ 1,141,528
Interest earnings	12,000	34,648	-	34,648
Total revenue	1,152,653	1,176,176	-	1,176,176
<b>Expenditures</b>				
Administrative	100,000	100,079	-	100,079
Capital outlay	-	-	95,254	95,254
Community development:				
Debt service	-	-	311,070	311,070
Distributions to other taxing units	-	199,951	-	199,951
Highways and streets	-	-	225,714	225,714
Other	32,000	5,704	-	5,704
Contributions to City of Saline funds:				
General	160,816	95,254	(95,254)	-
Major Streets	254,258	225,714	(225,714)	-
Saline Recreation Complex	331,070	311,070	(311,070)	-
Water and sewer	166,986	130,881	-	130,881
Contributions to the Economic Development Corporation of the City of Saline	135,000	135,000	-	135,000
Total expenditures	1,180,130	1,203,653	-	1,203,653
<b>Excess of Expenditures Over Revenue/ Change in Net Assets</b>	(27,477)	(27,477)	-	(27,477)
<b>Fund Balance/Net Assets - Beginning of year</b>	312,226	312,226	-	312,226
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 284,749</u>	<u>\$ 284,749</u>	<u>\$ -</u>	<u>\$ 284,749</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Local Development Finance Authorities June 30, 2005

	Modified Accrual Basis				
	Sauk Trail District	Shelton District	Total	Adjustments	Statement of Net Assets
<b>Assets</b>					
Cash and cash equivalents	\$ 442,165	\$ 334,916	\$ 777,081	\$ -	\$ 777,081
Capital assets	-	-	-	40,749	40,749
Total assets	<u>\$ 442,165</u>	<u>\$ 334,916</u>	<u>\$ 777,081</u>	40,749	817,830
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 400	\$ 400	-	400
Due to primary government	339,459	182,446	521,905	-	521,905
Long-term debt	-	-	-	295,000	295,000
Total liabilities	339,459	182,846	522,305	295,000	817,305
<b>Fund Equity - Fund balance - Unreserved -</b>					
Designated to subsequent year's expenditures	102,706	152,070	254,776	(254,776)	-
Total liabilities and fund equity	<u>\$ 442,165</u>	<u>\$ 334,916</u>	<u>\$ 777,081</u>		
<b>Net Assets</b>					
Invested in capital assets - Net of related debt				40,749	40,749
Unrestricted				(40,224)	(40,224)
Total net assets				<u>\$ -</u>	<u>\$ 525</u>

# City of Saline, Michigan

	Modified Accrual Basis				
	Sauk Trail District		Shelton District		Total
	Budget	Actual	Budget	Actual	
<b>Revenue</b>					
Property taxes	\$ 310,982	\$ 310,983	\$ 369,190	\$ 369,190	\$ 680,173
Interest earnings	4,000	6,402	5,000	12,377	18,779
Total revenue	314,982	317,385	374,190	381,567	698,952
<b>Expenditures</b>					
Administrative	64,025	59,714	43,000	35,607	95,321
Debt service	-	-	82,190	82,590	82,590
Distribution to other taxing units	-	-	-	16,335	16,335
Contributions to City of Saline funds:					
Major streets	76,422	76,429	191,025	191,053	267,482
Water and sewer	164,598	164,374	91,586	89,594	253,968
Total expenditures	305,045	300,517	407,801	415,179	715,696
<b>Excess of Revenue Over (Under)</b>					
Expenditures/Change in Net Assets	9,937	16,868	(33,611)	(33,612)	(16,744)
<b>Fund Balance/Net Assets - Beginning of year</b>	85,838	85,838	185,682	185,682	271,520
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 95,775</u>	<u>\$ 102,706</u>	<u>\$ 152,071</u>	<u>\$ 152,070</u>	<u>\$ 254,776</u>

**Other Supplemental Information**  
**Statement of Revenue, Expenditures, and Changes in**  
**Fund Balance/Net Assets - Budget and Actual**  
**Component Unit - Local Development Finance Authorities**  
**Year Ended June 30, 2005**

Adjustments	Statement of Activities
\$ -	\$ 680,173
-	18,779
-	698,952
-	95,321
207,482	290,072
	16,335
(267,482)	-
-	253,968
(60,000)	655,696
60,000	43,256
(314,251)	(42,731)
<b><u>\$ (254,251)</u></b>	<b><u>\$ 525</u></b>



# **City of Saline, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2005**

# City of Saline, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

We have audited the basic financial statements of the City of Saline, Michigan for the year ended June 30, 2005 and have issued our report thereon dated August 31, 2005. Those basic financial statements are the responsibility of the management of the City of Saline, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Saline, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 31, 2005

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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Governmental Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

We have audited the financial statements of the City of Saline, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Saline, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Saline, Michigan financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



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To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

August 31, 2005

## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

### Compliance

We have audited the compliance of the City of Saline, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Saline, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Saline, Michigan's management. Our responsibility is to express an opinion on the City of Saline, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Saline, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Saline, Michigan's compliance with those requirements.

In our opinion, the City of Saline, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

### **Internal Control Over Compliance**

The management of the City of Saline, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Saline, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

August 31, 2005

# City of Saline, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity	Award Amount	Federal Expenditures
		Project/Grant Number		
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds	66.468	7034-01	\$ 6,840,000	\$ 1,209,118
Emerald Ash Borer Tree Planting Grant	10.664	Not Available	20,000	20,000
U.S. Homeland Security Agency - Passed through Michigan State Homeland Security Grant Program Part II Training Grant	97.004	Not Available	4,705	4,705
Total federal awards				<u><u>\$ 1,233,823</u></u>



# City of Saline, Michigan

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## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005**

Revenue from federal sources - As reported on financial statements (Includes all funds)	\$ 24,705
Federal revenue not reported as such in the financial statements - Capitalization Grant Proceeds for State Revolving Fund *	<u>1,209,118</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 1,233,823</b></u>

\* Amount drawn on through June 30, 2005 is included in long-term debt in the basic financial statements

# **City of Saline, Michigan**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Saline, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# City of Saline, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2005

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

# **City of Saline, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None



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August 31, 2005

To the Honorable Mayor and  
Members of the City Council  
City of Saline  
100 North Harris Street  
Saline, Michigan 48176

Dear Mayor and Council Members:

We have recently completed our audit of the basic financial statements of the City of Saline (the "City") for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **Accounting and Reporting**

- During the course of our audit, we noted that several accounts in the tax collections trust and Agency Fund have not been reconciled regularly by the City. We suggest the City examine and reconcile all accounts on a regular basis.
- There was an instance where an employee selected in our sample was missing their direct deposit authorization form from their personnel file. We recommend that copies of this election form be kept in all applicable employee personnel file folders in order to promote complete record keeping. Per our testing, the applicable form was subsequently added to the employee file.
- With the recent implementation of GASB No. 40, the cash and investment disclosure requirements for the City have changed and now focus on the various risks associated with deposits and investments. We suggest the City review their investment policy to ensure that all the applicable terminology is consistent with the new GASB No. 40 disclosure.
- During the audit, we noted that the 2005 Celtic Festival required a larger subsidy from the City due to inclement weather. In light of this, we feel that it is increasingly important that procedures should be reviewed and updated by the City in order to assure that items are being properly handled and that the City has an increased level of control or predictability in its financial responsibility. We realize that an event such as the Celtic Festival requires some flexibility in the administration of the event, but our suggestion is that the City consider forming a small group to discuss and analyze the controls now in place and concur on the level of control that the City feels appropriate.

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## **Legislative Issues**

### **Current State Financial Picture**

The governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current fiscal year 2004/2005 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the legislature to revenue sharing and then subsequently restored.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, there appears to be no long term solution to the State's structural deficit in its General Fund. As long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, in July 2005 counties were required to move their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State-shared revenue represents an important part of the City's total General Fund revenue. The table below details state-shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

<b>State Fiscal Year</b>	<b>Statutory</b>	<b>Constitutional</b>	<b>Total</b>	<b>Decrease from 2001</b>
2001	\$ 495,751	\$ 521,343	\$ 1,017,094	\$ -
2002	441,094	526,655	967,749	49,345
2003	370,329	535,571	905,900	111,194
2004	284,426	529,754	814,180	202,914
2005	262,910	542,395	805,305	211,789
2006*	243,604	561,701	805,305	211,789

\* Estimated

We will continue to update the City as developments occur.

### **Telecommunications Act Expiration Date Approaches**

The Michigan Telecommunications Act is scheduled to sunset at December 31, 2005. There is a threat that the rewrite of the Act could include a restriction or elimination of the regulation of telecommunication companies (including cable operators, which would impact franchise fees received by local governments). There is also considerable discussion about prohibiting local governments from being in the telecommunications business, which may impact current or future activities of the City.

### **Transportation Matters**

The State is now expecting lower than originally anticipated Act 51 receipts for the State's 2004/2005 fiscal year, which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six-month period ended April 30, 2005 were 4 percent behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Streets Fund. The lower than anticipated collections could impact the City's fiscal year 2005/2006 budgets.

### **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2005 and is good for one year thereafter. In addition, the City should consider the need to file a qualifying statement for each of its component units.

To the Honorable Mayor and  
Members of the City Council  
City of Saline

4

August 31, 2005

### **Funding of Postemployment Benefit Obligations**

As mentioned in the prior year, the Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. The statement will not be effective until the City's fiscal year ending June 30, 2009. The cost of health care currently paid each year as premiums become due has been increasing and the trend is expected to continue.

You should be pleased to note the City has already taken action in order to address the new GASB pronouncement, including obtaining an actuarial valuation, establishing a trust, and beginning to fund the future liability.

We would like to thank the City and all those involved with the audit process for their assistance. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver



Martin J. Olejnik